# How will technology help financial advisors overcome some of the big challenges they'll face as they move into the future?

## Technology Roundtable

*Six of the industry's best technology thinkers gathered for a roundtable discussion at The Palace hotel in San Francisco in November 2011 while attending the Schwab Impact Conference.*

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## Context / Setting

Six of the industry's best technology thinkers gathered for a roundtable discussion at The Palace hotel in San Francisco on November 2, 2011 while attending the Schwab Impact Conference. The topic: How technology can help financial advisors overcome some of the big challenges they'll face as they move into the future.

Marie Swift, a frequent contributor to *Financial Planning* magazine's print and digital publications moderated the conversation. This article presents a fraction of their insights and observations. Download the entire white paper transcript and view a corresponding multimedia presentation at www.TechnologyToolsForToday.com.

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## Key Question Posed

How will technology help financial advisors overcome some of the big challenges they'll face as they move into the future?

## The Panel Replies

**Joel Bruckenstein, Co-Founder, Technology Tools for Today:** The challenges that advisors face are (1) becoming more efficient and (2) implementing workflows which many of them don't have – so that all boils down to (3) creating standardized business processes. With regard to technology specifically, the challenges they have are integrating the various technology applications they use and actually implementing whatever technology they choose to use in their office.

**Brent Burns, President, Asset Dedication:** As a firm that partners with financial advisors and allied institutions to build custom portfolios that deliver a predictable income stream that is matched to each client's specific needs, my team and I are lucky in that we worked with most everyone here at this roundtable and we actually did implement the technology. But what I hear most commonly from advisors I consult with is that they set up the system but never really learned how to use it. So they are using the pieces they know but there are a lot of other pieces that are very powerful and could save them a lot of time and make them a lot more efficient. They could automate processes in terms of workflows but they just don't do it because they don't know how and they don't have time and they may or may not have the budget to hire a consultant to do it for them. So they end up with a pretty significant investment in technology and yet that investment doesn't deliver on all the things it could do for their practice because they've never fully implemented it or fully leveraged the technology.

**Bruckenstein:** You make a good point. When firms budget for technology, they generally forget about the implementation costs and the ongoing training costs. As a rule of thumb, if you are not devoting at least 20% to 25% of the purchase price to implementation and training, and that's just initial training, you're not spending enough. You have a big investment, but you're not getting a significant return on it because you bought the technology and nobody knows how to use it.

## Technology Partners Stepping Up

**Mary Hepler, President and CEO, Cornerstone Revolutions:** By way of introduction, we provide a suite of software and service solutions designed specifically for independent advisors called PowerInvestmentTools. Many of the advisors that we talk to today, both our customers and prospects, are concerned about what they're spending on technology and whether or not they are getting value for it. One of the things Cornerstone is adamant about is making sure we are delivering value every year. If you, as an advisor, are paying a subscription fee, you should expect that from your technology solutions providers. So we are always adding new functionality, new capabilities. We also conduct monthly webinars, about half of which are topical in the investment world – we're not the voice of the expert on that so we bring in partners to add value. The other half of our webinars and communications are tips and techniques, special things that you can do that you may not be doing with our solutions that will help save you time and money.

Mary Hepler

**James Carney, President and CEO, ByAllAccounts:** In my role as chief executive for ByAllAccounts, a leading data solutions provider in the industry, I am always talking with advisors. One of them told me most succinctly, "I want this to work like a refrigerator or toaster in my kitchen. I want to plug it in and have it work – I don't want to go through a big learning curve." This gets back to an earlier point that Joel made and integration – that it just has to work. We, the technology vendors, need to do more so that technology works right out of the box. That's why when you see Apple's iPhone, iPod, iPad, and computer sales growing at tremendous rates. Why are they able to grow sales so quickly? Because there is no training/implementation needed. In addition, everything is integrated. There is a lot more for us as industry solutions providers to do.

**Stuart DePina, CEO, Tamarac, Inc.:** The industry really has been underserved from a technology perspective for years. We've come a long way, but we still have a long way to go. From an implementation standpoint, turnkey solutions have a hefty price tag. Technology vendors need to really streamline their solutions and make them painless to implement while keeping the cost down. Tamarac is certainly making strides at getting to that position, and I think we'll be to a place where new clients can perform self-implementation in the not too distant future.

From a usability standpoint, for many technology providers, trying to maintain an aging platform is really holding them back; that's why we're not seeing many financial applications with elegant user interfaces. When technology providers start embracing new technology, I think we'll start seeing more and more products that have mass-industry appeal.

## Broker/Dealer Landscape

**Hepler:** Cornerstone has a very affordable solution for many advisors, but a larger number of them, are affiliated with large broker/dealers who either will not allow them to use something else (we've fought that battle a number of times) or will allow them to use anything they want but they're going to pay for what they offer. And so we see a number of people who are really not happy with the technology that they have which is typically insufficient and somewhat antiquated but we can't get them to move because of the cost.

**Bruckenstein:** I think it's almost two different market places. The independent BD market is very different from the RIA market. On the RIA side there's a change going on; I think that's what Stuart was talking about. For years, I wrote about usability, but what the software companies were really competing on was functionality. It was how many new bells and whistles can I add? How many new functions can I add? Think about what Apple has done to change that.


Joel Bruckenstein

The iPhone and certainly the iPad, have refocused attention on usability. So what you're starting to see now, and why I think the RIA market is a better gauge of what's going on, is exactly the reason Stuart said: RIAs have free choice. There are constraints on what BD reps can do. On the RIA side, a lot of the development that's been going on, particularly over the last 12 to 18 months, has been much more focused on usability as opposed to adding new functions; I think that's very healthy because really part of the problem with implementation is the training costs are high because the programs are very complicated.

To the extent that you can make the programs as easy as an iPad app, where you don't need a manual, you can just push a button and you know what's going to happen, you lower the training costs and you lower the resistance to new products. It's a win/win all around – for the software companies and the industry as a whole. When you talk about the broker/dealer market, there are artificial constraints on that marketplace, which Mary alluded to. Not every broker/dealer allows their reps free choice. Some say you have to use what they've chosen, and often times it's not very good. Often times when the advisor changes, there are conflicting interests that have nothing to do with how good the software is and how easy it is to use. To me, that's not really a free marketplace, and I think there are distortions in the market because of that.

**Hepler:** Many of the people who are associated with broker/dealers are independents. They are RIAs. But we often can't get their data easily from the BD. ByAllAccounts, a leader in providing data solutions in the industry, has been helping us for quite some time now to address this issue.

**Bruckenstein:** Right, but nevertheless, even though they are "independent", they are not technology independent, so to me, that's sort of a misnomer. If you have constraints on what you can do, to me, that's not independent. You're beholden to someone else.

**Hepler:** In that regard, yes.

## Measuring Technology ROI

**Bill Winterberg, Technology Consultant, Founder, FPPad:** What you said, Mary, resonated with some observations that I have in the advisor space. I think an overwhelming majority just aren't measuring the benefits they receive from technology with a return-on-investment perspective. Most are still operating on systems and tools and processes that hearken from 5 or 10 years ago. The way that technology has moved in the last 12-24 months, well, there are just so many opportunities that advisors have to reach scale and enhance the way that they deliver service to clients. So there's a clear case that advisors are absolutely going to get a return-on-investment with almost any product in technology that they implement. But advisors are characteristically very conservative; they are conservative with their purse strings and they don't want to make a mistake, so it is an impediment often with exploring opportunities in new software and new utilities. There need to be a number of compelling reasons to overcome that resistance and conservative approach to where they're going to jump in with both feet, get their staff on board with full buy-in and really get some true return-on-investment with whatever service and product they buy.

**Bruckenstein:** One of the ways that might happen is if they actually had some measurement of ROI, but I think what you'll find when the Financial Planning magazine technology survey comes out again in December 2011 is that most of them don't measure it and those that do, do it in a very informal manner. So it's very hard to make the case. To me, ROI is one of the best reasons to buy new technology, but if that's not even on advisors' radar screens, it makes it that much more difficult to sell them on the idea of doing it.

Stuart DePina

**DePina:** Some of our RIA clients are actually using their CRM system to track the difference between their time spent, or cost, for each client and the revenue they make on each account. Any client that is costing them is essentially "let go." Some firms are adopting this as an annual housekeeping process. The same firms, after implementing our integrated RIA platform, are seeing their ability to service a higher number of clients increase while their actual cost-per-client dramatically decreases.

When looking across the various technologies and the ROI each delivers, rebalancing software has a unique value proposition – since it's almost always replacing a resource-intensive manual process – not existing technology. Because of this, firms experience tremendous ROI.

In our experience, the average firm spends 20 minutes rebalancing an account; however, when using rebalancing software, that same advisor can literally rebalance thousands of accounts in minutes and then spend the next few hours reviewing trade recommendations, making any adjustments and then executing with the various custodians.

What took some of our clients an entire quarter, now takes an afternoon. This ROI story is what enables firms to efficiently manage over $300M in assets with a staff of two. We have several RIA clients doing just that.

While, Tamarac's focus has been serving the independent RIA space, we have responded to several proposal requests from broker/dealers looking to up-level technology for their firms, but they seem to have more of a hang up on cost and don't see the ROI picture as well as the independent RIA does.

**Hepler:** We've actually put together specific value propositions where we're dealing with advisors who are currently at a wire house or captive broker/dealer but want to go out on their own; they are very astute and able to do a good assessment of value. In addition, we talk to the people in independent firms that use technology every day – they want to change, but need a convincing argument. We've put together a couple of business cases for them and were successful getting the business. You've got to pick those pretty carefully though, otherwise you are spending a lot of time with no return.

## Decision-Making Process

Brent Burns

**Burns:** Okay, so my firm, Asset Dedication, is an investment strategy firm that uses a lot of technology. Still, we have experienced the same thing. When we go in to talk to the business owner, there's another layer. In essence, you really don't have the business owner who is providing the planning and advice; you've got the business owner that's providing some sort of a platform, as you mentioned Stuart. The folks that are making the purchases? Their incentive is to just not mess up. It's not to innovate, it's not to take their business forward necessarily; they feel they are already delivering service, they can just continue to do what they are doing and any of the ROI is really, as Stuart mentioned, just a cost to them. That's how they view it and whether that's right or not, I think it's a challenge with that business model. One of the advantages that the RIAs have is that true independence where they can make that decision; they can be innovative and they can take advantage of what that delivers to their clients and how that allows them to grow their business or be more efficient with the business they just want to maintain.

**Bruckenstein:** There are some B/Ds that really do have a good reputation in the realm of technology and I think they approach it differently. One that comes to mind is Commonwealth. Another is Cambridge. They have a reputation for technology and, generally, our surveys show that with regard to technology, their advisors are much happier with the technology they are being provided because they do take a different approach. So there is recognizable value for the end user, which is what Mary is talking about, but often times at the corporate level, they don't connect the dots. They don't realize that the satisfaction or the retention or the ability to attract new independent reps is more and more based on technology.

**Burns:** I agree with you; I think the people that are making those decisions are more concerned with managing the status quo and not making mistakes. If they have to upgrade, they look for the path of least resistance. What's the easiest new product we can plug into this platform without rocking the boat and incurring huge costs?

**Carney:** We see the same thing. It's just the reactive versus the proactive. They're not thinking, just reacting. They'll do something when there's an issue such as, "I'm losing reps – now I've got to go do something." Even RIAs to some extent have a little of that too, being reactive versus proactive.

## Competitive Advantage

**Winterberg:** Survey after survey shows that the firms who make a concerted and continuous effort to innovate and adopt some of the leading technologies are widening the gap with their peers. Those that embrace new technology and make sure that they are delivering value-adds to their end clients, they're the ones that are consistently showing higher profitability; the advisors are working less hours, the staff is generally more satisfied and they are separating their performance and their matrix with the rest of the competition and their peers.

A lot of the questions I field from advisors come from all different areas and I try to focus the questioning down to this: what is the ultimate deliverable you are trying to offer to your client? When you have a husband and wife, or couple or single individual in your office, what is the planning experience, the advisory experience that you are looking to deliver to that end client? Then, back up and think about the technology that you have in place today, the technology that you may be considering purchasing in the future, and how those systems support that ultimate deliverable of the relationship and the advice that you give. Use that as your benchmark and then identify those services and products that support that engagement. Think about ways that it can be scaled so you can grow your business. Think of ways that create happy clients because happy clients can't wait to tell their friends and family how well they are being serviced and that leads to referrals. That leads to more business and that uses the scalability that you have to grow your business and be the advisor that you're hoping to be by embracing these solutions.

**Burns:** The point you made is right on the money in terms of integrating the technology with the planning process. Unfortunately, a lot of folks buy technology in silos. They say, "I need something to manage client relations, so I'm going to get myself a CRM," and then, "Oh I need to rebalance. I'm going to get a rebalancing tool," or "I need to do some planning so I'll get some planning software." They buy the technology in silos and they never think, "How do I crosslink them? How do they actually play into the business that I have and, ultimately, into the experience that I want to deliver to my clients?" There are some really fantastic opportunities to innovate with technology and get out ahead of the curve of what other planners are delivering to their clients.

Joel Bruckenstein and Brent Burns

It goes back to something James mentioned earlier: there is, often times, a lack of a strategy. In this case, I'm saying an overarching business strategy that says, "Here's what we're about. Here's the kind of service we want to deliver. Now let's backfill the technology and the products that will do that and let's tie it all up in a way that we can communicate to clients so that they recognize that when we deliver service to them, that they are getting something that they are not going to get when they go down the street and into someone else's office, because we are ahead of the curve. We are either leveraging technology in a way that nobody else is, or that we are able to provide more service to more people; we can scale up and help more people.

## World-Class Service

**Burns:** One thing that I hear particularly in the RIA market is this passion about actually helping people and changing their lives. When you boil it down to that and you figure out what needs to come in to support that process, if you piece it together in a way that's integrated, then there are all kinds of fascinating technologies and appliances that will make that process really stand out where the client will go, “Holy cow. That is world-class service. And when I talked to my friends about my experience, they have never heard of anybody that delivers service in that way.” There’s a fantastic opportunity; we’ve got providers at this roundtable that have tools that make that possible. It’s just a matter of lacing it all together, but really coming back to that strategy. Who are we? What are we about? And then how do we deliver?

**Bruckenstein:** One could almost make the argument in certain cases that it’s exactly the opposite of what Bill said; that sometimes the technology almost dictates the workflow and the client experience. Using financial planning software as an example, if you’re using MoneyGuidePro versus NaviPlan or Profiles, unless the advisor intervenes significantly, you’re going to get a very different client experience because the planning process is almost dictated by the software. Yes, the advisor can proactively step in and make changes, but if they just use the default workflows that are built in, it’s a very different process. You don’t usually think about it in those terms but, the majority of advisors almost back into a client experience based on the software products they buy.

**Carney:** I think Joel is right. Unfortunately, sometimes the tail is wagging the dog when they’re buying technology. They look at features and functions to make their decisions versus first understanding the business issues they want to address, how they want to address them from a process standpoint, and ultimately what is the impact for their client (positive or negative). There are enough options in the market now, probably more so than even 5 or 10 years ago, for advisors to find tools that are tailored to their ideal business process.

**Hepler:** I think there is a lot of truth to that. We’ve had a couple of clients recently that are like that, one in particular that I ended up working with because he was difficult. He just kept coming at us with, “Can you do this?” and he was coming at us with solutions vs. his requirements. I finally met with him in person and said, “OK, now tell me what information you want to communicate to your clients? Why do you want this information?” It was very hard to get him to step back and stop going directly to how to get the information versus what he was trying to achieve. Every time he asked, “Well, I’d like it to work like this”, I would ask “Well do you want that to include X or Y minus Z?” It was difficult making that connection.

Bill Winterberg, Mary Hepler
and James Carney

## Ability to Scale

**Burns:** You know to your point, Joel, I think you’re right. I hear advisors taking the stock solution and losing the ability to scale because they like a component of this software and another component of that software and then they have to copy and paste out of both of those to put it into some template that looks like it all came from the same shop. Apple tried to make their software customizable a few years ago where consumers could say, “I just want this little piece and this little piece and this little piece.” You could put together some building blocks for a unified solution that uses all the little “applets” – that’s what they called them at the time. That is definitely a challenge because they either allowed the technology to dictate or they said, “I’m going to take control." But if they didn't make the right choice or the solution they were looking for was unavailable, then they spent too much time on that end of the scale.

**Carney:** Here's a related question: Do advisors need more help or more time thinking about their own internal processes? Should they spend more time up-front understanding existing processes and how they should change those processes before they worry about the pieces of technology they need to buy?


James Carney

**Bruckenstein:** The short answer is yes. Smaller firms in particular spend no time thinking about their workflow. Again, that goes to uniformity and having something that's scalable. If you don't have a uniform process, you're not delivering a uniform client experience, number one. And, number two, you can't achieve scale if it's not something that you can easily duplicate with new employees as you grow. So the bigger you get, the more important it becomes. I think one example at this conference, and an area that Schwab is clearly trying to take a lead on, is the workflow libraries that they are building. It's a list of best practices for an individual workflow, whether that's client onboarding or some other process. Schwab started with five of them for Salesforce but they are going to produce them for all the CRMs they are working with. The second part of it is, once you think through the best practices, it shows you how to create the workflow and then implement it in the exact product that you are using.

That type of information, over time, should be very valuable to Schwab clients. The problem with most advisors is that they do not specialize in business processes. They either came from investments, a broker/dealer, insurance or something else, but they didn't come from business process. Most of them don't have someone on staff who has any knowledge in the creation of business processes; that's part of the challenge I think.

**DePina:** I completely agree with Joel. We have over 450 RIA firm clients and 10% of our client base has someone who fulfills the role of CEO or COO. The remaining 90% – whether they are a small $20 million firm, a one-person shop, or a $100 million firm with 3 or 4 people – do not have anyone dedicated to business processes. It's a bit of a challenge because every business owner wants his or her way. Most business owners don't want to relinquish the role of strategy to someone else. But, at the same time, they certainly want to have somebody guide them. Schwab, Fidelity, TD, Pershing and a few of the other custodians are certainly taking the lead in that regard, but there are opportunities for others to help support RIAs in this capacity as well.

## Acquiring Needed Skill

**Carney:** That's one of the things that holds back technology companies like ours. Bill, I know you've done a lot in this area but, on one hand, you say it's not our problem; we're the technology provider. On the other hand, advisors need education in regard to how technology can or cannot assist them in solving their specific business problems to be successful. So the question, even for us, is as a technology firm how much do we do of that versus where do advisors get those skills? Even though some of the custodians are leading the way, not everybody comes to these conferences. So how do you get that level of knowledge to those folks?

**Bruckenstein:** There are a number of routes from which the information comes. One is, clearly, custodians. I think whichever custodian you talk with, they will tell you that there's a great demand from their advisors for this type of information. So they are starting to provide it more. Another trend we're seeing in the industry is a number of the software companies themselves are providing this consulting wrapper around their programs. Junxure is a good example. They started a whole consulting line within Junxure, and we're seeing that from more and more companies. There are also third party consulting firms that provide nothing but consulting services to advisors. But, I agree with Stuart that, in general, the consciousness of the industry has not risen to the point where anybody except the top let's say 20% of firms even have a demand for this sort of thing; they don't even know they need it. They haven't realized it yet.

**Hepler:** Somebody made the point earlier that many advisors are happy with their business. We don't see a lot of emphasis among those advisors in wanting to grow; they pretty much like things the way they are. They may like the idea of more business or more efficiency, but changing to achieve that presents challenges they often don't want to address, such as bringing on new advisors or letting an administrative assistant go. They're just conservative. Change is hard. Change is hard for anybody.

**Burns:** This thread of conversation speaks to a bigger point that I see in particular because we work with a number of advisors on a more down-in-the-weeds perspective for their business, because we are an investment strategy that opens up our technology to their practices. What I see is that they all are reinventing the wheel, each one of them. They are all out there in various ways, and it's not just in technology. It's across their entire business: it's in marketing, healthcare, compliance, any of those things. I was just at the annual Garrett Planning Network retreat where Sheryl Garrett announced an umbrella RIA that's going to help bring scale to those planners, particularly some of the smaller firms. The larger firms can invent a wheel and they have staff to manage their wheel. But most of the smaller shops, under $100 million, good firms, service a lot of clients, and they have to come up with a lot of components to their practice. As Joel mentioned, they came out of some particular area of expertise; they're a CPA or whatever. So they don't necessarily know how to market their firm. They don't necessarily know how to build a technology platform or come up with a business process or strategy. They're good at what they do and the business has kind of grown up around them and now they're tasked with making decisions that require an investment of time and money and they're trying to piece it all together. That's certainly why, when we were making our technology decision, we came to Joel for advice.

Mary Hepler and James Carney

**Bruckenstein:** Marie, make sure you get all that in the transcript. Underline it. (laughter)

**Burns:** In all seriousness, there was a reason we sought out someone who understood the technology and asked the right questions about our business. That was the other piece. It's not just about, "What technology do you want?" It's, "What are you trying to accomplish in your business? What are you going to need and how much do you have to spend? Let's balance the resources and find the technology." It can be an expensive process. It adds cost, but I think it's worth it. Part of what you mentioned earlier today, Joel, was that people don't necessarily budget for implementation; they don't necessarily budget for upfront consulting about, for instance, making the decision about which financial planning software they really need – which one is going to deliver the experience that the client wants and how do they piece it all together?

Advisor A has to go through that process as does Advisor B because they may even be in the same city but they don't necessarily talk to each other about what they are doing for best practices on technology or any of the issues; so they're all out there reinventing this process and the nice thing is that there are folks around, such as those at this roundtable, that are saying, "Hey, let's bundle these things together. Let's figure out a way that we can do a little thinking on the front end for folks so it's a little more turnkey, a little more like an app." But they still have to stumble upon that, right? Some will and some won't and they may or may not have heard of the particular technology provider that's actually the best one for them. Maybe it's a small provider and maybe it's in a different industry.

## Asking the Right Questions

**Bruckenstein:** I would just add, and I'm sure Bill has had this experience too: When you are a technology consultant, you get calls where somebody calls you up and says, "What's the best CRM software?" or "What's the best financial planning software?" After pausing for a moment, I turn it around to them and say, "That's like me asking you what the best investment is? What's the best financial plan?" You need to know something about the firm first, but it just indicates to me the level of, I hate to use the word ignorance, but it is ignorance around technology and what they are trying to accomplish. It's not high on the list for most firms. It is, however, changing with the bigger firms. The bigger firms are starting to see a return on their investment and are saying, "Hey, we can really leverage this much more than we are," so they're going forward and they're hiring people. But even the $100 million firm and the $200 million, maybe even a half a billion dollar firm, a lot of them don't have a COO or a CTO or a CIO; they don't even have an internal person who knows anything about technology.

**Carney:** In some respects, aren't they going to be forced into it? If we look out 5 or 10 years, there are so many things that are changing. The demographics are changing. For instance, I asked my 22 year-old son and a coupled of his friends if they would use a financial advisor and I was shocked. They said, "Yes." I thought they would say, "No, I'm going to be self directed." But my son said, "Yes, as long as the value is there." So I asked, "What do you expect?" and he said, "I expect information." He's absolutely willing to pay, which is interesting; but he and his friends want value. They'll buy sneakers online because they're cheap and the value of buying them at a retail store is low, but they'll pay a premium for advice because the value perception is high. This up-and-coming generation is very savvy in their purchasing decisions. Look at how things are changing in the industry: for instance, Personal Capital, founded by former Intuit CEO Bill Harris, that launched in September, is all on the web. Now those guys may or may not hit a home run, but sooner or later somebody is going to do it by providing the right value proposition.

**Bruckenstein:** It's interesting you mention them because I've seen a number of those types of companies before and nothing has ever really taken off. I haven't even thought they were serious. But this one looks like it has a chance at least. It is a better thought-out model than the ones that have come before.

**Carney:** Yes. They have experienced people. They have money behind them. Whether they'll be really successful or not is unclear, but the train has left the station. Even if you don't want to grow as an advisor, you certainly want to retain your existing clients. Just to be in business, what you're going to look like in 5 or 10 years from now is different than today.

## Forced to Change

**Winterberg:** To your comment about the demographics, I think it really uncovers a hidden risk in the industry for the overwhelming majority of practitioners today. I always reflect on my own position because I know it the best as an early 30's professional. I'm a self-employed business owner. I'm married to a physician. I would likely make a perfect client for an independent advisor. But, with the majority of firms out there, I would be very dissatisfied with the level of service that is available. I would be dissatisfied with the technology that supports my relationship with that advisor. I have my life on my MacBook Air. I have everything at my disposal on my iPad. But if I work with an advisor and the only way I get a plan is by paper and I have to wait every quarter for my performance updates and other information and collateral like that, I'm taking a step backward. So yes, advisors are going to be forced to modernize and embrace these new technologies in order to make a more relevant connection with the next generation of planning clients.

**Bruckenstein:** That begs the question, why haven't they done it yet? What are they waiting for? I want to hear your answer first, Bill, then I'll give you mine.

Bill Winterberg

**Winterberg:** I hope not to stir too much controversy with the comment, but I think most advisors have been able to ride the baby boomer wave relatively easily. Their last twenty years, discounting the " lost decade," but since the 1980s with the bull market and the massive wealth increase in the baby boomer generation, it's been fairly easy to set up an advisory firm and deliver good value and do the right thing for clients; the revenue has come in and it's been a fairly non-controversial, easy-to-operate business. But there's a very significant disruption that's happening being brought on by technology, and the expectations of new prospects are orders of magnitude higher than the existing baby boomer and older generations. So we're seeing this shift and, with the majority of advisors being so conservative in nature, many are taking the slow approach or waiting it out, seeing what happens, all the while thinking, "I still have clients that have been with me for 15-20 years and that revenue is sustainable and it's pretty good," yet looking forward they're going to become decumulators, not accumulators, "so what am I going to do with my business in the future, but boy for the last 25 years it's been a pretty easy ride."

**Bruckenstein:** I agree with just about everything you said. I think there hasn't been a penalty for not being an innovator, if you want to put it that way, because the ride has been so easy with the exception of 2007 through 2009 when there was definitely a profit squeeze. What these advisors don't realize is that's not the case anymore. So, I'll ask an advisor, "Why don't you have this? Why aren't you using iPads? Or why don't you have a client portal." And they say, "Well my clients aren't asking for it." I try to get through to them, saying, "By the time your clients ask for it, it's too late." Some of them may never ask. They're just going to leave because they can get it somewhere else. So in the past, they haven't really been penalized like that for being slow adopters. There was enough time that they could catch up, and to your point, I don't think that's the case anymore. I think maybe their clients will never ask for it, they'll just go to the advisor across the street who already has it and say, "Hey, he's charging the same and look what he gives me. He gives me the portal. He gives me all my reports on iPad. Hey, the guy is actually going to give me an iPad and deliver my reports that way as a gift." People who don't innovate in this industry are doomed.

**Hepler:** I don't want to be a naysayer here, but I work very closely with my personal financial advisor. About a year ago I considered leaving him, almost did, and the reason I didn't was because I value his opinion and I value his analysis of risk in the marketplace and what he can teach me. Would I like a few different kinds of reports than what I get? Yes, I would love one that I don't have to make my own spreadsheet that ties option money to the underlying security. I would love a report like that, but is that the end of the world? No. What I really want from him is an assessment of the risk. Am I invested correctly? What other strategies can I use? Yes, technology is great. I want the stuff readily available. I want to be able to see it online. I can do all that. I can get reports monthly if I want, quarterly if I want, that's fine. What would make me go with an advisor? Would the technology make me go there? It would not. It's his insight and advice that draws me to him. Sure, he needs tools to formulate his advice. But it's his ability to keep an eye on my investments and say, "Now's the time to get out of it." And he does that. A few years ago I had a currency basket and he said, "You know, you've made 66% on this and it might go higher, but I think it's time to get out." I said, "Well OK, let's get out." And you know what, it went a little higher, but then it went lower – that's the kind of thing I value and that's what I pay for. It's the same thing as when James' son says, "Yea, if he provides value" – and to me, the value of my advisor is all about how much my investments earn.

**Bruckenstein:** I agree with you Mary, you mentioned it yourself: your advisor needs the right tools to do that.

**Hepler:** He does need the right tools.

Bill Winterberg, Mary Hepler and James Carney

## Adding Value

**Bruckenstein:** Just a couple of quick examples: Historically, advisors have measured risk by standard deviation and that's what's built into all the software products. Okay, now there are other measures of risk built into newer software products that I think are very useful. So one could argue that if you're an early adopter of macro risk technologies, which are really just coming into the forefront for advisors and right now about 5% of our responders to the survey are using it, I mean to me that's real value because it's a different way of looking at risk. And that's software. You can't do that with an Excel spread sheet. And if you're using even a bad model for the efficient frontier, there are good ones and bad ones; that makes a difference. So you may be getting an analysis of risk that's very good because he's using good software to do it or very bad because he's using an antiquated model to do it.

**Burns:** To jump in on what James' son is saying, where is the value? Because what I find interesting and where I think advisors misplace their value is on delivering, basically, market returns. In the current model, many position their value-add in terms of returns. But the real value-add, and I think this is what people will start paying for as they start to differentiate advisors from brokers from other people who deliver financial information and products, is that it's really the advice that matters. That's what makes them unique. It's their approach to planning that makes them unique and their ability to distill and articulate the real risks that clients face. Yes, you can measure risk in standard deviation. You can measure macro risk. But clients primarily say, "I don't want to run out of money. I don't want to have to move in with my kids." And that's risk around the plan and the ability to deliver a plan is what differentiates RIAs from other kinds of financial service professionals that sell product. RIAs can say, "Hey, we can deliver product in whatever way we want. This is a type of planning services that I'm going to provide." Maybe it's driven by the software a little too much, maybe not, but at least they've got some kind of process.

It's really the philosophy and the planning that's unique to each advisor. It's like going to the dentist. They don't just sell a crown right? Maybe you need a crown on that tooth and maybe there is another treatment that will work better for you. The service flows out of professional treatment planning that is specific to your situation. Does financial advice move in that direction? Does it consolidate into an industry with a few big firms delivering uniform products to clients? Or, does it splinter off into a cottage industry where advisors deliver their unique take on planning and investment advice that flows from their unique (but professionally sound) philosophy? If so, then they need to have the technology and tools built around their processes.

I think the cottage model reveals advisors' true value-add. It is not simply investment advice and portfolio returns. The real value comes from financial planning. From helping clients identify and map-out how they will achieve their financial goals. And once the plan is put into motion, making the necessary adjustments needs to stay on track and adapt to changes in the plan. Sure investments are a part of that plan, but there are so many other intangible decisions that contribute to the client's success. Buy the boat, don't buy the boat. Refinance the house. College funding. Each of those decisions aggregated into a whole plan that is driving towards the client's vision of success. If that is the real value, then all the technology we've been talking about today should be framed as tools that support the delivery of that highly personalized advice in a scalable way.

## New Level of Consolidation

**Carney:** I support that comment. The other dynamic that we see in our business, and we have over a thousand advisory firm as clients, is that there is a level of consolidation happening. It's not just the big multi-firm roll-up strategy. It's one firm merging with one or two others in local or different geographical markets. The number of firms that I've seen consolidate just from our own client base over the last 12 months is twice as much, if not three times as much, as the year before. Consolidation is being driven by the need for greater operational efficiency, the need to provide a higher level of service to clients, and the need to have a succession plan for the long term health and viability of the firm.

**DePina:** Yes, we've seen a lot of that.

**Winterberg:** Let's not discount the impact of regulatory changes. With the switch of the asset level for state and SEC regulation, there is now some incentive for firms to join forces, whether they still operate in silos or ensembles, but if they are able to join up and gain from economies of scale and get their assets over levels where they only need to respond and manage their compliance for one regulatory body rather than a smattering of a dozen states, certainly that's going to minimize the overhead and time-kill on managing compliance internally and that means there's more time available for client service and growth opportunities.

## Motivating Factors

**DePina:** For Tamarac, we deliver improved client and portfolio management efficiencies for advisors. We understand that advisors don't want to spend money on technology for the sake of spending money on technology. While some may not do the true RIA analysis, they are motivated by either more efficiently growing their business or simply running their current book more efficiently so they can spend more time out of the office.


Stuart DePina

The other point that's been discussed is that advisors want to feel good about their investment in technology – not only ensuring that it just works the way it was sold, but that the advisor is properly supported through consulting, implementation and ongoing training and support.

Over the last 12 years, Tamarac has gained a strong appreciation for the amount of change management that occurs when replacing legacy systems and manual processes–and for firms to feel good about their technology investment, they need a true business partner that focuses on services and support just as much as they do technology.

Tamarac is proud of its over 97% customer renewal rate, and as a true Software-as-a-Service vendor, we place an enormous amount of resources on supporting our clients such that they can gain the maximum ROI from their technology investment in us.

**Carney:** I would say the other thing that we see from our client base is clearly much more willingness to look at outsourcing in general, without any question. In the last several years it's been the smaller firms and the breakaways because they needed to outsource. But what we've seen over the last year or two is a huge change in the larger firms. I'm talking billion dollar firms, two billion, three billion dollar firms that have had traditional in-house capabilities. Today they are really taking a look at outsourcing from a strategic standpoint saying, "Why are we doing this?" because now there are other alternatives, where up until this point, they maybe hadn't felt comfortable giving up that level of control. And so we see not only small firms but larger firms looking more now to outsource a lot of the core, back-office functionality so they can then really focus. They clearly realize the real value-add is their relationship with a client and want to focus more on where they truly add value. I believe that is absolutely a wave that will continue to happen in the future. ByAllAccounts' focus is to provide data aggregation services which allows the advisory firm to focus more on their core value, and we take responsibility for the account data needs with multiple custodians. A fringe benefit of the ByAllAccounts service is that it provides data portability. Should a firm want to change their system or outsourcer, with a "flick of a switch" the firm's account data can flow into the new system or service.

## Flexible Solutions

**Hepler:** On the heels of that, I will say that as many advisors as we talk to, I would be hard pressed to find two of them that want to operate exactly the same way. Even within a single advisory firm, it's not unusual to find different advisors who run different strategies and have different working preferences. So at Cornerstone Revolutions, we 'do business the way our customers want to do business.'

We offer flexibility on four fronts: First and foremost, we are flexible about the way in which advisors can categorize investment assets; there are no preset asset classes so they can have that anyway they'd like.

Second, billing – we offer many billing options. Advisors tend to bill quarterly and that's about where the similarity stops. Some advisors like to bill on-cycle, some like to bill off-cycle, some use really simple percent AUM tiers, and some exclude all kinds of securities and security types. Whatever way they want to bill, we'll do it that way.

Mary Hepler

A third way we offer flexibility is in the services we provide. We are seeing a bit more interest in outsourcing. "Can you do it all for us?" Yes, we can. "Well, could you do it all for us except this piece?" Yes, we can. "No, we don't want you to do any of it. We like doing it in house." That's fine, too.

Fourth, and finally, how the technology is delivered. Some advisors absolutely do not want to have any technology platform in their office at all. They want us to do that for them – they want to operate in the cloud. We'll do that for them. But then there are others who are just not going there; at least not yet. And so we offer solutions for both choices – well, it's actually the same solution, but we can drop you in one place or the other.

In short, I think it's really important in our business, especially with what's going on in compliance and everything that an advisor has to do, to make things as easy as possible. The last thing they need to worry about is getting the kind of solution they need for right now. Their tastes may change, but I think of it akin to when I go to a restaurant, I don't really look at the menu. I look at the components of the menu items and then I say, "Well, what's my taste today? Can I have this and this and this or this and this?" In my favorite restaurants I can get pretty much whatever I want. All I have to do is ask. Sometimes I even ask for stuff that's not on the menu, and I find I can even get that. So, in my book, choice and flexibility are good.

**Burns:** As I think about the discussions today, there are a couple of points that apply particularly to our firm, because we are an investment solution but we deliver it via technology. We work with a number of the firms at this roundtable here today. As we deliver our investment strategy, we look to do it in a way that supports the value of the planning process. The reason that I think it's important to integrate and bring it all together is it creates an experience for the end client that's easy to understand. It's easy for them to see, particularly if you aggregate all their data in one place. Then they can see everything and the advisor has a way of building a much deeper relationship and tying up that emotional part of the relationship because the advisor is providing information and planning around things they are not even managing. They are doing it because they think it's important to the overall financial health of the client.

The same thing holds true in our business with the ability to take portfolios and rebalance them in a way that's quick and efficient so that the advisor can be pulled out of that day-to-day process. We are able to leverage technology and deliver it to advisors in a way so that they don't have to go out and buy it themselves. If they can pull themselves out of that day-to-day struggle, instead of worrying about how to implement trades and reconcile data, advisors can focus on their clients overall plans – the area where the advisor delivers unique value. "What do I need to talk to my clients about today? What do they need to hear from me? How can I deepen that relationship and how can I change their lives in a way that will be lasting – where they're going to look back and say "Gosh, I'm so glad my advisor has taken care of my financial life."

You hear commercials about it from some of the brokers and I don't believe it. But I do believe it from RIA firms where I see the real emotional tie that the clients have with these advisors because they are focused on creating these solutions, customized all the way down to their level. Obviously, you can layer in all kinds of technologies that allow advisors to communicate that better that might allow them to implement that faster. But it's really about integrating. Not just integrating processes across technologies, but integrating into the process something that delivers value to the client, in a way that integrates into their lives.

Stuart DePina, Joel Bruckenstein and Brent Burns

## Trends in the Industry

**Bruckenstein:** I've spent close to 15 years now helping advisors evaluate technology and make technology decisions. Over that time there have been certain positive trends that I see and some that are not so positive. The positive trend that I see is that even 7 or 8 years ago, the focus or the lack of focus on technology was very noticeable. It was almost like an afterthought in the industry. It's certainly becoming much more of a front-burner topic among advisory firms and I think that's very positive. My business partner, David Drucker, and I have tried to contribute to that with the Technology Tools for Today Conference and the *Technology Tools for Today* Newsletter.

What is probably not as promising is the fact that it's still not enough. The fact that we have to sit here and talk about it and that so many advisors don't have a technology plan, don't have workflows in their office, are not using the right technology tools, still means that there's a lot of work to be done. Most of the firms here and most of the custodians, I think, are really making a good faith effort to improve the lives of advisors and their clients, so I'm optimistic about the future, but it's just a little frustrating that it's taken as long as it has to really reap the benefits that technology can offer to advisors and their clients.

**Winterberg:** I think that any advisor can be surveyed and he or she will offer 3 or 4 bottlenecks to their business; things that keep them up at night, things that worry them because they know they can't rebalance all of their client accounts in a single day, or they know it takes them two weeks to deliver quarterly reports to their clients. So they know there are things that they can do to streamline their practice and recover all that time that's spent in antiquated workflows and antiquated models. Absolutely every advisor out there can identify what their bottlenecks are, and with that there are a number of things they can use to identify some solutions and survey the market place. Certainly the T3 Technology Tools for Today Conference and Newsletter are great resources, helping advisors to survey the landscape and try to match solutions that are available today with those needs and with those pain points. And with those solutions in mind, advisors need to decide, "Is this something I can do? Do I have time? Do I have bandwidth to take care of it? Do I have bandwidth available in my staff? Are my staff members capable? Do they have the expertise to handle this and move us forward with the evaluation process?" If the answer is no to any of those questions, consider an outside consultant whose job it is to survey the same landscape and match up those solutions with the needs that have been identified and then use that expert to catalyze the acceptance and implementation of that solution to make sure that the business case is valid, to make sure the staff is on board and they're welcoming that innovation and that new technology because the ultimate objective is to make the firm more productive, more efficient, enable growth, enable scale and have a whole bunch of happy clients who just can't wait to refer their friends and family.

**-- More --**

## About the Participants

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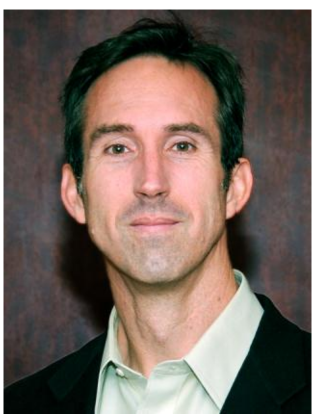
Freelance magazine writer, book author, virtual office consultant and fee-only financial advisor Joel P. Bruckenstein, CFP®, NAPFA Registered Financial Advisor, is Publisher of *Technology Tools For Today*, an information source and online community for independent financial advisors, and a co-producer of Technology Tools for Today, the only annual technology/practice management conference for independent advisors. Joel has served as Senior Technology Editor at MorningstarAdvisor.com. He has written a monthly technology column for Financial Advisor magazine and he frequently contributes articles to Financial Planning magazine and other industry publications. *Virtual Office Tools for a High-Margin Practice*, Bruckenstein's practice management and technology book co-authored with David Drucker, has garnered universal praise from industry experts. The duo's second book, *Tools & Techniques of Practice Management*, published by National Underwriters Company, is popular with both financial professionals and academic institutions.



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Brent Burns is President and co-founder of Asset Dedication, a separate account manager specializing in liability-driven investing for individuals. The firm provides sub-advisory services for independent advisors who are seeking retirement income strategies for their clients. The firm's process for balancing the risks of volatility and longevity hinges on a goals- and time-based approach to asset allocation. The cornerstone of this idea is using individual bonds to match a retiree's income stream. Burns co-authored a book entitled *Asset Dedication* with co-founder Stephen Huxley, which was published by McGraw Hill in 2005. He holds an MBA in Finance from the University of San Francisco.

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James Carney, President and CEO of ByAllAccounts, is a co-founder of the firm. He and his teams have had a proven track record of effectively building, marketing and selling highly scalable, complex solutions on time and within budget. Prior to co-founding BAA, James was a co-founder and CEO of Bidder's Edge, the largest online auction portal servicing greater than 500,000 users on a monthly basis with information available on over 8 million items on a near real time basis. Prior to Bidder's Edge, James was a co-founder and CEO of Workgroup Technology Corp., which developed product information management systems for the engineering and manufacturing environments. ByAllAccounts aggregates account data from virtually any online financial source, and then using their patented process, enhances and normalizes the data into a reconciliation ready format that feeds into all the most popular back office systems. These systems include portfolio management systems, CRMs, accounting systems, reporting systems, trading applications and rebalancing tools. Carney holds a BS in Finance from Babson College.

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As Chief Executive Officer, Stuart DePina manages the long-term growth strategy of Tamarac, a leading provider of integrated portfolio and customer management software and services for financial advisors. DePina's professional history is distinguished by leadership roles in guiding firms through various stages of development including initial public offerings and acquisitions. Most recently, DePina served as Chief Executive Officer for Who's Calling, a web-based application that uniquely measured online and traditional direct marketing performance, where he succeeded in doubling the company's revenue base and drove profitability. He served as president and Chief Executive Officer of xSides Corporation, a developer of trusted computing and digital rights management technology. He was Chief Financial Officer for Ticketmaster Corporation, Inc., and a partner in the Big 4 firm of KPMG LLP, where he provided consulting and assurance services to a number of clients in the firms' financial services practice.

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Mary Hepler is President and CEO of Cornerstone Revolutions, Inc., a firm providing independent investment professionals with the technology products and services needed to operate independently or with a staff. Founded in 2002, the firm's turnkey solutions for RIAs – called PowerInvestmentTools – combine extraordinary flexibility, ease-of-use and affordability to manage the complexities of an investment professional's practice. The software suite and service solutions incorporate portfolio management and related components including portfolio rebalancing, trade order management, web portals, and back office solutions. PowerAdvisor is Cornerstone's flagship product for portfolio management, performance measurement, and reporting. A Colby College graduate, with a Masters in Computer and Information Science from Ohio State University, Hepler was once a software developer. She also enjoyed a fourteen-year career in banking and worked at a big software firm overseeing sales and running technical support for eleven years. In 2008, Hepler was handpicked by a private-equity fund to run Cornerstone Revolutions, Inc.

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Bill Winterberg is a CFP® with past experience as a Registered Representative, Registered Investment Adviser, and an Operations Manager. He is currently the technology columnist for Morningstar Advisor, a technology contributor to the Journal of Financial Planning, and has been quoted in a variety of publications including USA Today, Reuters, SmartMoney, Financial Planning Magazine and more. Winterberg consults with financial professionals in the selection and implementation of the right technology solutions for their practices. Prior to entering the financial services industry, he was an embedded software engineer for Hewlett-Packard Co. and LeapFrog Toys. His combination of experience in engineering and financial services areas influences his objective of creating efficient, profitable, and service-oriented advisory practices.

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Marie Swift is a nationally recognized consultant who has for over twenty years worked exclusively with some of the industry's top financial institutions, training organizations, investment advisory and financial planning firms. A top rated speaker at dozens of industry events, Marie is dedicated to elevating the conversation in the industry. Marie is also a prolific writer and contributes to many of the industry's leading publications, including Financial Planning magazine. A thought leader for thought leaders, she is known for bringing some of the industry's best and brightest voices together for dialog and debate. Her Thought Leader Round Table series is just one example how Marie generates interesting conversations with movers and shakers in the financial services industry.

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